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ABSTRACT

Insurance coverage of school buildings and contents is becoming increasingly difficult to obtain, and increases of 50 percent or more in the premium are not uncommon. Methods of reducing premium increases are outlined in this speech. (MLF)

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BUILDING AND CONTENTS INSURANCE

Protection of school property against loss by fire is an important responsibility of each and every one in our positions. To say that we share a common problem would be a gross understatement. We share a gigantic problem, a problem that is still growing by leaps and bounds. Up until three years ago, you and I were providing the insurance industry with a very sought-after segment of the market. School buildings and contents at that time still represented a profitable sales area. Today we are experiencing greater and greater difficulty placing our building and contents coverage; and when we finally locate a carrier willing to provide coverage, the premium is usually far in excess of what we had budgeted.

This past week I had an opportunity to visit with Bud Edwards of the Kemper Insurance Group and was informed that no immediate relief is in sight with regard to building and contents insurance coverage. One large insurance company has recently communicated with each insured and informed them that 24-hour, seven-days-a-week custodial or night watchman services must be provided in all buildings. I am not familiar with the situation in your respective districts, but I do know that the Fort Madison District is not in any position to provide this type of service. Other companies are anticipating implementing this same requirement; however, some have indicated a modification of the requirements if detection equipment is installed per the insurance carrier's specifications.

EA 003 781

What it seems to resolve itself down to is that if you now have building and contents insurance coverage in effect, consider yourself most fortunate. If your present coverage is terminating, then be prepared to encounter problems in placing your coverage and be prepared for increases of 50 per cent or more in the premium.

One means of reducing premium increase which you might consider would be the inclusion of a deductible amount. Many school districts are experiencing substantial savings in their fire insurance costs through use of a deductible which provides that the amount selected as the deductible is covered, in effect, by the district, and the insurance carrier does not participate in the loss until the deductible has been satisfied. The amount of the deductible may vary from as little as $100 to any amount the district feels it can assume. The amount of the deductible must be determined by each district, with consideration given to the amount of rate reduction, past insurance claims, and the ability of the district to assume the deductible portion of a loss or series of losses. Rates will differ considerably in various areas, but a reasonable guide is that a deductible of $1,000 will result in a rate reduction of 15 to 18 per cent.

In my own district we have chosen to include in our coverage a disappearing deductible. Under this method, the amount of the deductible is gradually reduced after the initial amount is satisfied until, with a sufficiently large loss, there is no deductible charged.

Of primary consideration in the establishment of an adequate program of fire insurance protection is the determination of accurate values. The basis of adequate fire insurance protection is an annual statement of values which includes buildings and contents. We are all aware that property values are

increasing steadily each year, and if the building and contents valuation is not adjusted annually, our Districts can easily find themselves with inadequate coverage limitations. If the valuation is inaccurate and values are placed too high, an overinsurance situation exists which results in excess premiums without the benefit of increased coverage in the event of a loss. Loss adjustments are made on the basis of insurable or replacement value but never for more than the face value of the policy.

When valuation is inaccurate and values are placed too low, a penalty may be assessed in the settlement of a fire loss under the terms of the co-insurance clause.

Fire insurance rates are computed on the assumption that insurance will be carried up to a reasonable proportion of the property value. Most fire losses are partial losses, and we might be tempted to insure only that part of our property that we would expect to lose in the event of a fire. Insurance company rating schedules provide a sliding scale, or decreasing charge per $100 of value, according to the percentage of value insured. The rate per $100 of value under a co-insurance agreement of 90 per cent is less than that under an agreement of 70 per cent or less. Obviously, a greater amount of insurance must be carried; but as purchasers of 90 per cent coverage, we receive the added protection against the large loss along with the rate credit. The responsibility for deciding the total value of District property generally rests in our respective offices.

Except for providing a lower rate on the insurance, the co-insurance clause is inoperative until a loss occurs. In the event of loss, our insurance carrier would determine the total value of the property insured and compare this with the amount of insurance carried and the co-insurance percentage. Please remember that it is not until a loss occurs that the

co-insurance clause becomes effective. Some school districts have been faced with difficult problems of replacing school buildings, contents, or both when the insurance payment represented considerably less than was needed or anticipated.

An obvious way to avoid a co-insurance penalty is to insure to value, or on the agreed percentage of value. This, of course, requires accurate and current property valuations.

Most companies will offer you the prerogative of waiving the co-insurance clause through a stipulated value or an agreed amount. You are usually required to provide a sworn statement of values or an appraisal by a properly licensed appraisal firm. With this type of coverage, it is written into the policy that the property values, as agreed upon, represent 90 per cent (or whatever percentage is selected) of the total value of the district's property. This statement of values is not used in the adjustment of losses, and all losses are paid at 100 per cent of the face value of the policy.

It is highly recommended by experts in the area of building and contents insurance that every effort be made to have school fire insurance written on the basis of an agreed amount. By eliminating the co-insurance provision, it is assured that fire losses will be paid on the basis of the loss without concern for penalties when the value of the property proves to be in error.

The most common fire insurance form to be offered for coverage of school districts is the Public and Institutional Property Plan, generally known as P.I.P. This form of coverage was established for optional use in insuring public properties such as schools, churches, colleges, municipal, county and state installations. Coverage includes fire and extended coverage with vandalism, malicious mischief, and sprinkler leakage available by endorsement. Blanket coverage may be written on all properties, and deductible amounts are generally

applied to all coverages. An amount-of-insurance clause (agreed amount) is used in lieu of co-insurance clause, and calls for an annual sworn statement of values with insurance required in an amount of at least 90 per cent of the values.

A recent trend in the insurance industry in the area of coverage is the package policy. This policy may be called the Special Multi-Peril Policy or S.M.P. Available in this package are five areas of protection:

1. Physical Damage to Real, Personal, and Scheduled Property
2. Comprehensive Bodily Injury and Property Damage Liability
3. Loss from Burglary and Robbery
4. Fidelity Loss
5. Boiler and Machinery Damage

Each area of coverage may be modified or supplemented to fit the particular situation and operation of your particular district.

The Statutory Compliance Endorsement should be an inclusion in the insurance program of every school district in the State of Iowa. This endorsement says in effect that the insurance company will provide the District with coverage for statutory liability imposed by virtue of Chapter 405, Acts of the 62nd General Assembly of the State of Iowa. This act includes the "save harmless" provision which places any tort liability claims on the District rather than the individual employee. Criminal actions are not covered by this endorsement except that if the insured as defendent in a criminal action is found not guilty of all charges, the insurance will reimburse certain financial charges including legal costs and attorney's fees.

The acquisition of building and contents insurance coverage for our Districts represents a challenge to us all. Be prepared to make some alterations of your present coverage, such as including or increasing the deductible. First, determine what your District has to insure, decide what

coverages should be provided, and then secure these coverages at the lowest cost to the District. After receipt of your policy, spend some time verifying that all coverages you requested have been included. Know exactly what is covered by your insurance so that proper claims are filed in the event of a loss.

--As presented to the 9th Annual Conference of the Iowa Association of School Business Officials, April 16-17, 1971, in Council Bluffs, Iowa, by Mr. William C. Freese, Business Manager, Fort Madison Community School District, Fort Madison, Iowa.